The First Canadian Bank

Bank of Montreal

Annual Report 1976

159th Annual Report to Shareholders

159th Annual General Meeting
Montreal, January 17, 1977

Contents

Legal deposit, 4th quarter (1976)
Bibliothèque nationale du Québec

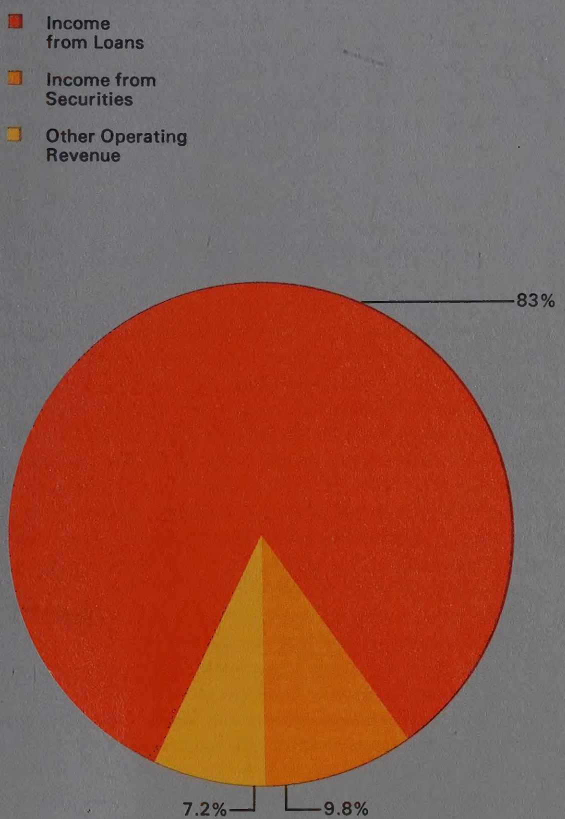
(On peut obtenir sur demande
un exemplaire français)

1976 Highlights

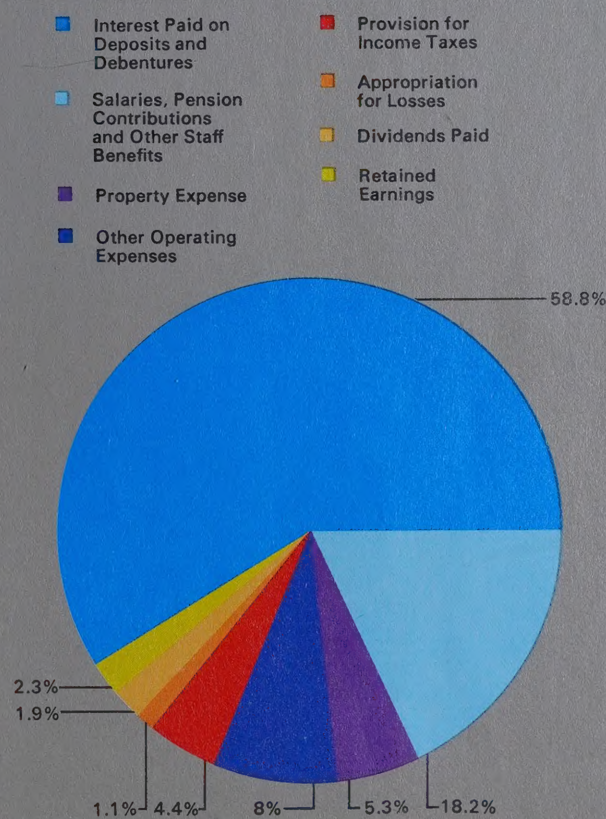
For the year ended October 31st	1976	1975
Balance of Revenue	$174,834,496	$195,734,799
— Per Share	$4.94	$5.73
Income Taxes	78,900,000	93,600,000
Balance of Revenue After Income Taxes	95,934,496	102,134,799
— Per Share	$2.71	$2.99
Balance of Profits	75,934,496	81,134,799
— Per Share	$2.15	$2.37
Dividends	35,181,028	32,805,000
— Per Share	98¢	96¢
Salaries and Benefits Paid to Employees	327,145,763	273,962,993
Number of Employees	26,887	26,114
As at October 31st		
Assets	20,492,378,623	$18,242,634,080
Deposits	18,577,969,391	16,550,476,748
Loans	14,128,978,074	12,314,667,494
Capital Funds	781,203,886	641,184,871
Number of Shares	37,690,842	34,171,875
Number of Shareholders	52,452	51,253
Balance of Revenue After Income Taxes Per Share		
First quarter	$0.81	$0.55
Second quarter	0.75	0.68
Third quarter	0.61	0.92
Fourth quarter	0.54	0.84
Year	$2.71	$2.99

The 1976 Revenue Dollar

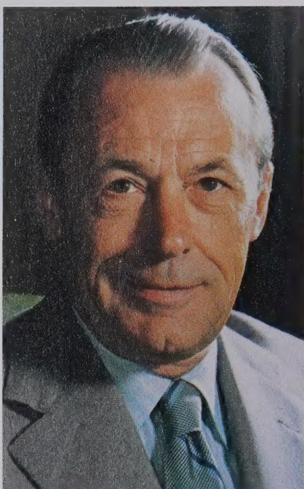
Where it came from



Where it went



Financial Report on Operations



Fred H. McNeil
Chairman of the Board
and Chief Executive Officer

W. D. Mulholland
President

Summary

Although balance of revenue after tax at $96 million was $6 million lower than in 1975, earnings were still the second highest in the Bank's history. Total assets rose 12% to a new high of $20.5 billion at October 31. The Bank's capital position was strengthened by the addition of the proceeds of a new issue of shares, from retained earnings and from a debenture issue. In addition, the Bank's contingency reserves (the accumulated appropriations for losses account) totalled $147 million, an increase of $24 million. In all, capital funds and reserves totalled $928 million at year-end, an increase of 21%.

The Balance Sheet

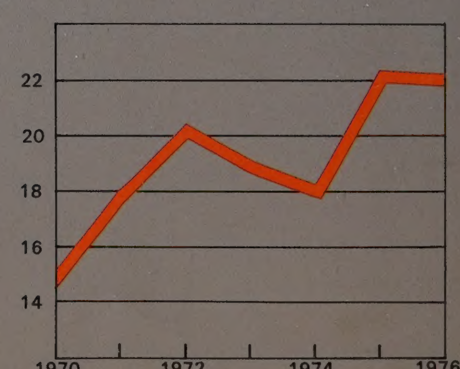
Of the $20.5 billion in total assets as at October 31, 1976, Canadian currency assets were $15.9 billion, equal to 78% of the total. The increase in the year was $2.2 billion or 15%.

Assets denominated in foreign currencies amounted to $4.6 billion but were only marginally higher than the previous year-end since it was the Bank's policy to reduce the amount of low-yielding money market assets and to replace these with higher-yielding commercial loans.

Total Canadian dollar deposits of the Bank at year-end were $13.7 billion, up $1.5 billion or 12% from October, 1975. In order to fund the rapid growth in loans over the past several years the chartered banks have become progressively more dependent on relatively high-cost non-personal term and notice deposits. Five years ago these deposits represented only 18% of our Canadian dollar deposit liabilities. This year they were 22%. Foreign currency deposits were $4.9 billion, up $575 million from a year earlier. Over all, deposits rose $2 billion to a new high of $18.6 billion.

For much of the past decade, the Bank has experienced strong growth. However, the increase in the Bank's underlying capital base has barely kept pace in spite of substantial additions from retained earnings and several large debenture issues. As a result, in 1975 a decision was made

A Greater Proportion of High-Cost Funds



Non personal term and notice deposits as % of total Canadian dollar deposits at year end.

to restrain balance sheet growth by holding down the expansion in foreign currency assets. In spite of this decision and substantial additions to rest account from last year's earnings, it was clear that continued participation by the Bank in meeting the demand for credit in Canada and abroad required a further expansion in our capital base.

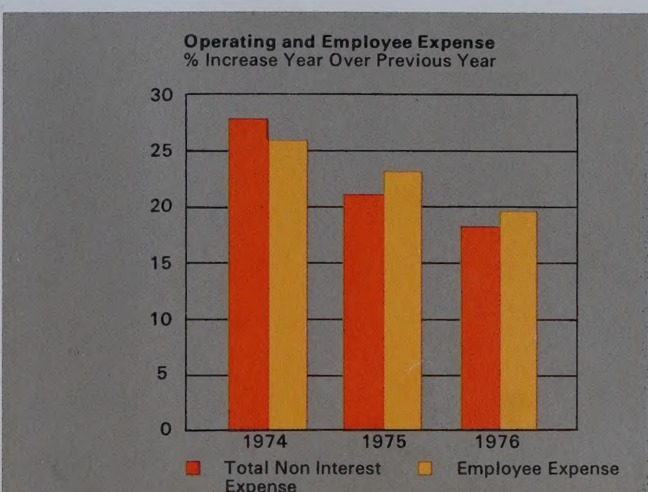
In 1976, therefore, the Bank took further steps to strengthen its capital position. In May, the Directors approved the issue of an additional 3,796,875 shares in the capital stock of the Bank. The issue was fully subscribed and will increase capital funds by approximately $53 million. In September, a $50 million 9%, 6-year debenture issue was placed in the Euro-Canadian market and at year-end, $41 million was added to capital funds from retained earnings. In addition, contingency reserves increased $24 million. Together, these actions provide the capital necessary for continued profitable expansion of the Bank over the near term.

The Earnings Statement

Balance of revenue before tax at $175 million in 1976 was down $21 million from 1975. After tax the total was $96 million, $6 million lower than in the previous year. Canadian currency operations contributed some 75% of before tax balance of revenue, with the balance from foreign currency operations.

Net interest earnings were up $62 million in the year mainly because of a $1.1 billion increase in average assets. Interest rate spreads reached a two-year high in the last quarter of 1975 but have narrowed since then. In foreign currency operations the spreads were considerably wider in 1976 than in the previous year, reflecting the restructuring of the foreign currency asset portfolio.

Non-interest revenue amounted to $130 million in 1976, up only $6 million or 4.6% from the previous year. This relatively small increase can be attributed to some extent to the impact of the Federal Government's anti-inflation legislation which froze prices on a wide range of bank services at the same time as the cost of providing these services was increasing rapidly. One of the services for which prices were frozen was activity fees on deposit accounts. These represent in excess of 35% of the Bank's total non-interest revenue.



Operating expense, other than interest expense, including provision for loan losses based on five-year average loss experience, totalled $566 million in 1976, up $89 million or 18.6% from 1975. However, in spite of strong inflationary pressure and an increase of $2.2 billion in total assets during the year, the percentage increase in operating expense in 1976 was considerably below that experienced in the previous two years.

Measures were taken to control complement increases stringently and as a result, the increase in Bank personnel in 1976 was the smallest in the last eight years. Notwithstanding this, employee expense in 1976 still rose sharply because of adjustments made to salary scales in a strongly inflationary environment.

Inflation has also been causing strong upward pressures in other areas of expense. This has been particularly true with respect to property expense where, over the past several years, the Bank's mix of freehold and leasehold properties has been changing in favour of leasehold. Consequently, larger numbers of leases are being renewed at substantially increased cost. In addition, municipal taxes have been rising at a rapid rate.

In keeping with higher lending volumes and a continuous reassessment of risk, the amount included in the earnings statement as an expense for potential losses on loans has also increased. This amount, which is a normal cost of doing business, was $37.7 million in 1976, an increase of $6 million from 1975. The Bank's 1976 specific provisions against possible losses were in fact lower than in 1975, but when included in the five-year average formula, produced the higher charge against earnings referred to earlier.

to 5 yr average

Fred H. McNeil

William D. Mulholland

37.7
6.0
31.8 = 5 yr.

The Operating Environment of 1976

The Economy

Throughout the Western industrialized world, 1976 was a year of recovery. Business conditions improved markedly from the severe recession of 1974-75 and, while unemployment was high and capacity utilization rates remained low, the rate of inflation was down significantly in nearly all countries.

The worldwide recovery was led by a rebound in business activity in the United States where the bottom of the cycle was reached in the first quarter of 1975. Following large tax cuts, the U.S. economy moved up sharply in the second half of 1975 and for most of the first half of 1976, but turned softer with growth more sluggish after early summer. The inflation rate, which in 1975 had shown an increase of 9%, fell significantly and was in the 5% area for most of the year. Falling food prices were the chief reason for the decline but price performance was better in nearly all sectors of the economy. Wage increases moderated significantly.

In Canada during the past year, the recovery measured in terms of changes in real G.N.P. varied widely from quarter to quarter as recurring periods of sharp inventory accumulation and decumulation masked an underlying modest uptrend. In the year ended in the second quarter of 1976 real final demand, that is, the volume growth in production excluding inventories, rose by a respectable, if unspectacular, 4.8%.

Of special note was the exceptionally good weather conditions that prevailed throughout most of the world's major growing areas. In Canada grain production was up 22% over 1975 and wheat production reached 866 million bushels, an all-time record.

The good agricultural supply situation was a factor influencing the downtrend in agricultural prices and in Canada, as well as in the United States, the inflation rate eased substantially. In contrast with the United States, however, non-food prices in Canada showed only a slight tendency to decline and high wage rate settlements continued to be a source of a great deal of concern.

Another area of concern was the large deficit in Canada's international trade in goods and services, expected to be about $4 billion in 1976. Some improvement in the merchandise trade area has been evident with trade moving into a surplus position after being in an untraditional deficit throughout 1975. However, a widening in the services deficit has been offsetting most of this improvement.

The rise in the services deficit was primarily the result of higher interest payments to service the very high level of foreign long-term borrowing that has prevailed since mid 1975.

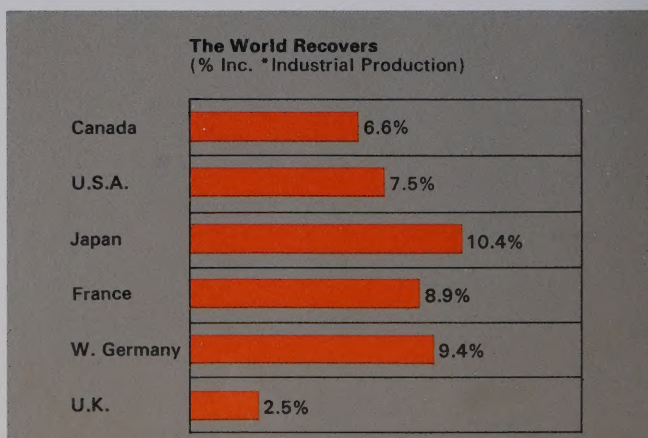
Borrowing in fact has been so great that in spite of Canada's large deficit in trade in goods and services, the Canadian dollar strengthened and traded between $1.02 and $1.03 U.S. during much of the year.

Domestic Financial Markets

In retrospect, the remarks by the Governor of the Bank of Canada in Saskatoon on September 22, 1975 set the tone for domestic financial markets in 1976. In that speech, Mr. Bouey indicated a need to slow down the growth rate in the money supply so as to reduce inflation. Subsequently, he set a specific target for growth in M_1, the narrowest definition of money supply (i.e. demand deposits and the public's holding of currency) of 10% to 15%. In August, the growth target range was reduced to 8% to 12% and by keeping an extremely tight rein on the banking system, the central bank was able to keep within these target growth ranges throughout the year.

At the same time, loan demands on the chartered banks were extremely strong with total loans of all banks at end October 19% above a year earlier. As a result of this heavy loan growth and the relatively slow expansion in personal and demand deposits, the banks continued to rely heavily for funding on non-personal "bought money" deposits. This combination of factors served to keep short-term interest rates high during the year.

Apart from the historically high level of interest rates which prevailed throughout the year, the most noticeable in-



*For 12 months ended June for France, August for West Germany, September for Canada, United States, United Kingdom and Japan.

terest rate development was the narrowing in interest rate spreads between long-term bonds and short-term corporate paper that occurred in the latter part of the year (see chart below). The declining trend in long-term rates was the result of several factors, including a more optimistic view of future inflation rates, lower demand for long-term funds as the growth in capital spending eased off, and greater use of the Eurodollar and U.S. capital markets by Canadian borrowers because of the significant differential between U.S. and Canadian rates.

The Regulatory Environment
In February 1976, the chartered banks were given the first formal regulations applicable to their operations under the Federal Government's Anti-Inflation Program which had been announced on October 13, 1975. These have been revised somewhat since, but at fiscal year-end the regulations as they affect the operations of the Bank of Montreal, apart from salary regulations which are standard, may be summarized as follows:

a) Domestic operations only are being regulated.

b) The balance of revenue on domestic operations as a ratio of average domestic assets is limited to 1.13%.

c) Certain interest rate spreads are limited to levels prevailing in October 1975.

d) Service charge prices have been frozen since October 13, 1975.

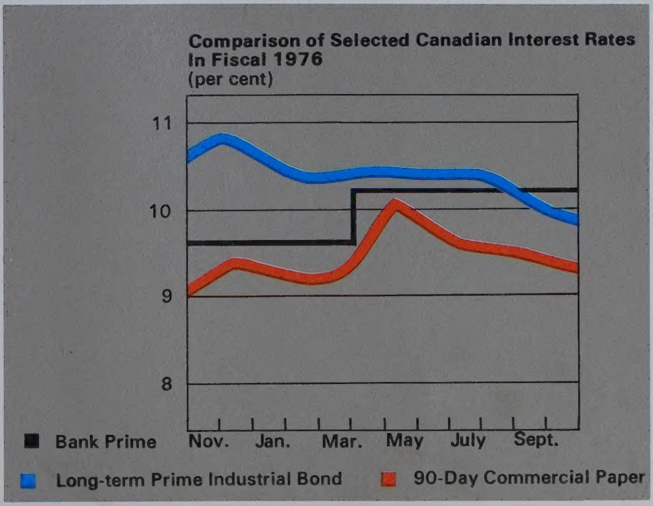
e) Restrictions are placed on certain discretionary expenses such as personnel training and advertising.

Your Bank has also been engaged in consideration of a broad range of other legislative and regulatory matters which could have an important effect on our day-to-day operations. These have included proposed revisions to the Bankruptcy Act and the Combines Investigation Act, the possible application of the Business Corporations Act to banks and the introduction of a Borrowers and Depositors Protection Act.

The most important pending legislation is, of course, the revision of the Bank Act due in 1977. In late August, a White Paper entitled "Canadian Banking Legislation" was issued by the Federal Government.

In brief, it proposed that the Government seek to exercise a degree of control over foreign banks operating in Canadian financial markets, and over non-bank financial institutions in Canada that accept deposits transferable by order but are not now subject to the constraints of the Bank Act. These institutions would be required to hold cash reserves at the Bank of Canada and along with the chartered banks would become members of a proposed Canadian Payments Association which would operate an enlarged clearing house system.

The White Paper proposes that foreign banks should be allowed to operate in Canada as banks under federal legislation. While the Bank of Montreal agrees in principle with the proposal, our general position is that, whether operating here as banks or as financial affiliates, foreign banks should not be allowed more favourable treatment in Canada than that accorded to domestic banks or than chartered banks enjoy in the foreign bank's home country.



Developments Within the Bank

Corporate Account Management

With its continuing commitment to be responsive to the changing requirements of customers, the Bank this year established a new group, Corporate Banking, charged specifically with understanding and serving the financial needs of corporate business.

With headquarters in First Bank Tower in Toronto, Corporate Banking is providing a fast, efficient and knowledgeable response to the many banking-related requirements of today's complex business organizations.

This is being accomplished by having skilled and seasoned officers, operating in small, closely knit teams, assume management responsibility for both the credit and non-borrowing service requirements of a limited number of large accounts. These teams enjoy substantial authority, and are supported by their own staff research and services group. Day-to-day banking operations continue to be conducted at a branch of the customer's choice, so that in essence, Corporate Banking officers team with the relative branch manager to provide the best possible banking service to satisfy the needs of a commercial customer.

Through the expertise of its officers, the limited number of accounts managed, and the authority accorded to it, Corporate Account Management offers a customer:

— A single contact to which any inquiry may be referred.

— A short response time for all banking requirements.

— Concentrated relevant Bank expertise and resources with in-depth knowledge of a particular industry.

— Continuity in the management of an account. There will always be an officer available who is familiar with the account and known to the customer.

— Increased frequency of contact allowing the Bank to gain a more thorough knowledge of a customer's business which, in turn, will enable the Bank to better serve the customer's needs.

Initially, Corporate Banking is responding to the financial needs of major corporate customers in Ontario. Their positive and enthusiastic reaction to this new system has been very encouraging and we plan to expand the number of Corporate Banking units in order to offer this service to as broad a segment of the corporate business community as possible.

Specialized services will be available to the important mining and petroleum industries through a Natural Resources unit of Corporate Banking which will commence operations early in 1977. This unit will include our Project Financing group established last year to specialize in the financing of major undertakings, primarily in the natural resource and energy related areas.

Mechanization Program in Installation Phase

During the past year volume installation of the Bank's on-line mechanization project was begun in branches and good progress was achieved.

The new automated system handles those activities associated with deposit accounting services and by the end of the fiscal year some 230 branches in the Bank's Ontario and Quebec Divisions had been converted.

The performance of the new system has been closely monitored and experience to date has been good. The system has met the reliability and availability standards that had been set. In addition, the reaction of branch personnel and customers has been favourable. A number of independent audits have been conducted on the system in operation and these confirm that it is accurate, well controlled and has adequate safeguards built into it to protect against error or fraud.

Domestic Lending Activities

In 1976, Canadian dollar loans outstanding, excluding day loans, increased to $11.3 billion, a gain of $1.6 billion or 17% over the previous year. In percentage terms this

Bank funds are assisting in the interim financing of the giant Fire Lake iron ore complex in northern Quebec. Shown here is the pelletizing plant under construction at Port-Cartier.

Top: An increasingly common sight these days: a customer utilizing Instabank's 24 hour service to perform a simple banking transaction. First introduced last year in Vancouver, Calgary and Toronto, Instabank units have now been installed at locations in 6 other large cities. Customer response is enthusiastic.

Below: Being a teller is not what it used to be. Here Miss Joyal Benloulou of Mansfield and Sherbrooke St. Branch, Montreal standing at her teller's wicket enters a transaction on a branch terminal.

Above: This photograph shows part of the new nitrogen fertilizer complex of Canadian Fertilizers Ltd. in Medicine Hat, Alberta. The company is owned by farm cooperatives and plans to build three fertilizer plants costing in excess of $230 million. In its capacity as a co-leader of the financing, the Bank is providing substantial support during the construction period and in the longer-term financing.

compares with a growth of 12% in 1975, the stronger increase largely reflecting increased demand resulting from improved business conditions experienced in 1976.

Personal Lending
For many years, personal loans have been one of the fastest growing sectors of the Bank's lending portfolio representing 28% of the total as at September 30, compared with 23% ten years earlier. This trend continued in 1976, when loans under the Bank's Firstbank Finance Plan, our principal personal lending facility, rose some 22% and recorded the largest dollar increase in the Bank's history.

Advances under specialized loan plans continued to experience very satisfactory growth. Among the plans showing good expansion were the Bank's Home Financing Plan, designed to provide first and second mortgage financing for a wide variety of purposes, and loans to finance mobile homes, vacation homes and recreation equipment.

Business Lending
During the year, the Bank introduced two new services for its commercial borrowing customers, the Firstbank Business Finance Plan and the Firstbank Business Life Insurance Plan.

The Firstbank Business Finance Plan is available to individuals, partnerships or corporations whose borrowing requirements for business purposes do not exceed $200,000. Designed to appeal to a broad spectrum of business operating in this segment of the market, the new plan features optional life insurance and provides lending programs to satisfy both short-term operating and long-term capital requirements tailored to the needs of the individual business.

In cooperation with a leading Canadian life insurance company, the Bank now offers the Firstbank Business Life Insurance Plan. This plan enables commercial customers to obtain life insurance coverage providing for automatic repayment of outstanding business loans upon the death of the owner, partners or officers actively engaged in the business Once accepted into the plan, customers are automatically eligible for life insurance covering loans up to

Top right: Helping small business is the business of René Gagnon. Here the Bank's Quebec Business Development Manager (centre) discusses the financing of a new restaurant in St. Paul L'Ermite with co-owners Bernard Hébert (left) and Léopold Dumont.

Right: Executive Vice-Presidents Fraser MacNaughton (left) and Charles de Jocas, seen here in Montreal Main Branch, head the Bank's Domestic Banking Group which focusses on the needs of individuals and small and medium-sized businesses.

$50,000 and further insurance on loans up to a maximum of $200,000 is available, in most cases without a medical examination. The Plan is priced to provide maximum coverage at minimal cost and is the first such service to be offered by a bank in Canada.

A significant step to complement the Bank's continuing interest in the financial needs of the small businessman was taken this year. Business Development Managers have been appointed in each of our six divisions in Canada. Their job is to expand the Bank's presence in the small business market. In particular they will be working closely with branch managers to assist them in structuring individual loan programs to meet the diverse needs of our various small business customers.

During the past year, the Bank's activities in the area of loans to larger-sized corporations have also expanded. Of special interest were the Bank's involvement in the financing of a number of large resource projects.

Agricultural Lending

The Bank has also been expanding its activities in the agricultural sector. The terms of repayment on loans for farm machinery and equipment have been made more flexible, with loans up to ten years available where warranted. In addition, a program is being introduced which provides long-term financing for the purchase of farm land and buildings. The maximum coverage under the Bank's Farm Creditor Life Insurance was also increased from $100,000 to $250,000. The Bank's Agriculture Department has been expanded from seven to nine Agrologists serving farming areas across Canada.

Leasing

The Bank's leasing affiliate, Canadian-Dominion Leasing Corporation Ltd., showed substantial gains in assets and earnings during the past year. Its leasing portfolio grew $27 million to $129 million in the year ended September 30, 1976.

On December 31, 1975 the Bank increased its equity participation to 41% through the purchase of additional

Top right: The Bank's agrologists spend a great deal of their time discussing farm problems and opportunities with customers. Here Don Gibb the Bank's Senior Manager, Agriculture Department looks over a customer's new four-wheel drive tractor on a farm near Carman, Manitoba.

Right: British Columbia Senior Vice-President Gene Nesmith (left) looks over the False Creek urban redevelopment project in Vancouver, B.C. with Doug Sutcliffe the Project Manager of the False Creek Development Group. This imaginative project is transforming 200 acres of a formerly run-down district in Vancouver into an attractive housing area. The Bank is playing a major part in the financing.

treasury shares in accordance with our share purchase agreement which provides for eventual 49.9% ownership. Leasing services of the company are offered through branches of the Bank under the First Canadian Leasing Program.

Mortgage Lending
The Bank continued to make available a high volume of mortgage funds throughout the year. Loans to finance some 7,500 single detached dwellings, 1,300 condominium units and 450 multiple dwellings were approved.

The Bank was particularly active in the secondary market for mortgages. On balance, there were substantial sales to investors in Canada and abroad and to the Bank's affiliates namely, First Canadian Investments Limited, First Canadian Mortgage Fund and BM-RT Realty Investments which increased their mortgage portfolios by over $170 million.

The regional centralization of mortgage lending functions, embarked on last year, is nearing completion. This has been a major effort and will provide a more efficiently controlled operation.

Strong Master Charge Growth Continues
Our Master Charge Division has completed its third full year of operation and continues to make excellent progress. Our cardholders' dollar volume in 1976 grew by a resounding 56% over 1975. In only three years we have captured a share of the charge card business greater than our share in most areas of personal banking. The Division has in every year exceeded its annual objectives for sales, cardholder accounts and outstanding loans and we continue to anticipate reaching the break-even point in the fifth year of operation.

Credit losses have been well within the standards of our industry and our portfolio of outstanding accounts is closely managed.

Master Charge Division — Record of Progress

At fiscal year end	1974	1975	1976	Increase 1974-76
	(thousands)			(percent)
Cardholders	955	1232	1596	67
Outlets accepting Master Charge in Canada	91	107	116	27

In April 1976, S.S. Kresge Co. Ltd. elected to discontinue their in-house credit card plan and chose to convert their accounts to Master Charge accounts, thus further expanding our cardholder base. Both Kresge's and ourselves have been pleased with the results. To our knowledge, this is the first such conversion of a major retailer's in-house plan by a Canadian bank charge card.

International Banking
International Banking's earnings (which result from all of the Bank's operations outside Canada as well as those activities in Canada directly related to international financial transactions) represented about a quarter of the Bank's Balance of Revenue in 1976. Profitability of International Banking operations increased over the previous year as a result of improved balance sheet management, selective expansion of commercial lending, close control over non-interest expenses and sustained levels of non-interest earnings — particularly foreign exchange revenues.

As at October 31, 1976 the Bank had offices in nineteen countries with representatives, branches or subsidiaries in Australia, the Caribbean, Latin America, Western Europe, Asia and the United States.

In view of the steady expansion of the Bank's international activities, five separate divisions have been created. Last year, divisional headquarters were established in London for Europe, the Middle East and Africa, and in

One of the first firms to become associated with Master Charge Division's private label charge card service was Peoples Jewellers. Shown here is a transaction being completed with the Peoples Jewellers card. Subsequent processing will be handled by Master Charge Division.

Below: Place Vendome is reflected in the doorway in this unusual shot of the entrance to Paris office.

Bottom: In his office overlooking Mexico City Carlos Garin, the Bank's senior representative in Mexico, discusses business opportunities with Diego Montt, the representative.

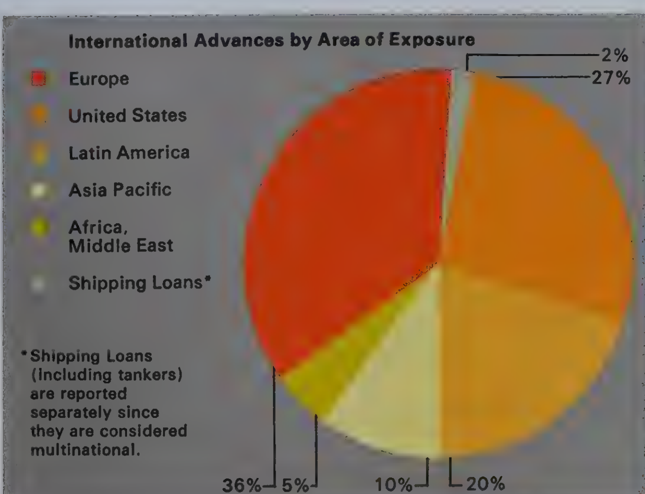
Singapore for the Bank's Asia/Pacific division. Headquarters for the Latin America and Caribbean division is located in Montreal with U.S. operations directed from New York City.

Since Canada is one of the world's great trading nations, ranking sixth in terms of volume of exports among O.E.C.D. countries, the Bank has always given special attention to the international requirements of Canadians and since 1968 has had a separate department for this purpose, International Trade and Finance. At present, this department has offices in Montreal, Toronto, Calgary and Vancouver. On November 1, 1976 a new International Banking Division was established in Toronto to supervise all Canadian-based international banking activities, including export-oriented lending, foreign exchange, money market and funds transfers. The establishment of this separate division is a reflection of the growing demands of our Canadian customers for expert assistance with their international financial transactions.

Control mechanisms to manage the risks inherent in doing international business include a multi-level credit appraisal and review system, internal country exposure limits, conservative foreign exchange position limits on all currencies and control of maturity schedules of assets and liabilities designed to minimize the risks involved in movements in international interest rates.

The Bank's exposure in international commercial loans and money market placements is widely dispersed among more than 90 countries. The chart below illustrates the regional distribution of International Banking's advances.

About 90% of the Bank's foreign currency assets and liabilities are denominated in U.S. dollars. The balance is in a number of foreign currencies, mainly sterling, deutschemarks and Swiss francs.



Brief Reports on other Matters of Interest

Personnel Activities

More and more skilled people are required to fill the many diverse positions in banking today. To assist employees in adding to their knowledge and expertise, the Bank offers a wide variety of educational programs, such as the courses conducted by the Institute of Canadian Bankers and the Bank's Tuition Refund Plan, under which personnel are encouraged to pursue university courses related to their work areas.

Many of the Bank's own courses are given at First Bank College, which has just completed its first full year of operation. The College, located in downtown Montreal, provides living accommodation for personnel on course as well as classroom and other related facilities. Last year over 1,400 employees participated in seminars related to the installation of the Bank's mechanization program. A wide range of other courses were also conducted and the College operated at 70% of capacity.

At fiscal year-end, the Bank's full-time personnel numbered about 27,000, over 70% of whom were women. Shown here, talking to Pierre Bianchetti of International Banking, is Anne Davidson, a specialist in corporate systems in the Operations and Systems Division, one of an increasing number of women occupying senior managerial posts.

Keeping Business Informed

The Bank's Vice-President and Chief Economist, Jack Toten, is photographed leading a discussion on the economic outlook. Besides informal presentations, such as the one shown here, the Bank has sponsored a major Outlook Conference for the past five years at a number of large cities across Canada. Senior financial officers of governments and major corporate customers are invited to these sessions which extend over an afternoon. The Conference, chaired by the Chairman or President, includes presentations on the short-term economic outlook for Canada and the world as well as comments on expected financial developments and is followed by an open discussion. Last year, the overall attendance reached 2,300 and a feature of the Conference was a business-oriented questionnaire which proved to be a valuable sampling of business views and intentions.

In a somewhat similar fashion, the Bank's monthly Business Review is now primarily designed to assist businessmen in keeping abreast of economic developments and the likely course of events. The Review, which is widely quoted in the press, this year celebrated its 50th anniversary of publication in both English and French.

Premises Department Kept Busy

Bank Premises Department had a busy year in 1976 with some 200 sizable projects in various stages of development at all times.

Shown here is the eyecatching interior of the new branch of the Bank in Chilliwack, B.C. which was completed this year and opened for business in July. It features a unique circular design with a high skylight dome over the banking pavilion.

In other building developments phase I of First Canadian Place in Toronto, the construction of the tower, is now essentially completed. The building which formerly housed Toronto Branch and Ontario headquarters was demolished during the year to make way for Phase II of the project, the construction of the new banking pavilion. Plans for building are now being completed.

The Bank and the Olympics

Shareholders who watched the winter and summer Olympic Games last year on television will recall that the Bank was prominent as a sponsor. It is probably less well known that the Bank was even more actively involved at the summer games as the official supplier of banking services. With personnel specially selected from branches across Canada, the Bank operated three branches and a Press Information Centre on Olympic sites to meet the banking needs of National Olympic Committees, their organizers and athletes, radio and television broadcasters, journalists, concessionnaires and other delegates and official guests.

In the photo above some idea of the busy activity in the Olympic Village Branch can be obtained as co-Manager Marcel Brière from Shediac, N.B. in the foreground assists athletes from Japan. Branches were also operated at Kingston where the sailing events were held and at the Main Broadcasting Centre in Montreal. Although open only during the month of July each branch handled a very heavy volume of transactions.

Statement of Revenue Expenses and Undivided Profits

For the year ended October 31	1976	1975
Revenue		
Income from loans	$1,492,455,179	$1,420,694,845
Income from securities	175,847,473	160,418,818
Other operating revenue	130,420,251	124,702,687
Total revenue	1,798,722,903	1,705,816,350
Expenses		
Interest on deposits and bank debentures	1,058,253,549	1,033,235,753
Salaries, pension contributions and other staff benefits	327,145,763	273,962,993
Property expenses, including depreciation	95,051,997	85,119,706
Other operating expenses, including provision for losses on loans based on five-year average loss experience	143,437,098	117,763,099
Total expenses	1,623,888,407	1,510,081,551
Balance of revenue	174,834,496	195,734,799
Provision for income taxes relating thereto (Note 5)	78,900,000	93,600,000
Balance of revenue after provision for income taxes	95,934,496	102,134,799
Appropriation for losses	20,000,000	21,000,000
Balance of profits for the year	75,934,496	81,134,799
Dividends	35,181,028	32,805,000
Undivided Profits		
Amount carried forward	40,753,468	48,329,799
Undivided profits at beginning of year	841,121	511,322
	41,594,589	48,841,121
Transferred to rest account	41,437,500	48,000,000
Undivided profits at end of year	$ 157,089	$ 841,121
Per Share (Note 4)		
Balance of revenue	$ 4.94	$ 5.73
Balance of revenue after provision for income taxes	2.71	2.99
Balance of profits for the year	2.15	2.37
Dividends	0.98	0.96

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For the year ended October 31	1976	1975
Accumulated appropriations at beginning of year		
General	**$ 60,493,623**	$ 69,582,629
Tax-paid	**62,164,007**	36,120,129
Total	**122,657,630**	105,702,758
Additions (deductions) during year:		
Appropriation from current year's operations	**20,000,000**	21,000,000
Loss experience on loans for the year, less provision for losses on loans based on five-year average loss experience included in other operating expenses	**2,562,746**	(16,280,284)
Profits and losses on securities, including provisions to reduce securities other than those of Canada and provinces to values not exceeding market	**(3,068,290)**	3,916,364
Other profits, losses and non-recurring items, net	**(1,828,847)**	5,862,287
Recovery of income taxes, including credit of $7,373,000 (1975 - $ nil) relating to appropriation from current year's operations (Note 5)	**6,625,585**	2,456,505
Accumulated appropriations at end of year	**$146,948,824**	$122,657,630
Accumulated appropriations at end of year		
General	**74,442,058**	60,493,623
Tax-paid	**72,506,766**	62,164,007
Total	**$146,948,824**	$122,657,630

Statement of Assets and Liabilities

October 31, 1976

Assets	1976	1975
Cash Resources		
Cash and due from banks (Note 2)	$ 2,563,790,414	$ 2,409,754,544
Cheques and other items in transit, net	273,363,787	285,903,605
	2,837,154,201	2,695,658,149
Securities		
Securities issued or guaranteed by Canada, at amortized value	1,706,077,297	1,606,561,276
Securities issued or guaranteed by provinces, at amortized value	197,937,772	163,382,377
Other securities, not exceeding market value	489,496,849	434,674,055
	2,393,511,918	2,204,617,708
Loans		
Day, call and short loans to investment dealers and brokers, secured	418,870,837	273,263,099
Other loans including mortgages, less provision for losses	13,710,107,237	12,041,404,395
	14,128,978,074	12,314,667,494
Sundry Assets		
Bank premises at cost, less amounts written off	162,912,814	161,596,410
Securities of and loans to corporations controlled by the bank	8,439,551	8,439,551
Customers' liability under acceptances, guarantees and letters of credit, as per contra	927,660,822	840,271,458
Other assets	33,721,243	17,383,310
	1,132,734,430	1,027,690,729
Total	$20,492,378,623	$18,242,634,080

William D. Mulholland,
President

John A. Whitney,
Executive Vice-President and Chief General Manager

Liabilities	1976	1975
Deposits		
By Canada	$ 381,979,405	$ 238,241,510
By provinces	207,488,799	191,499,471
By banks	2,673,838,403	2,795,416,810
Personal savings payable after notice, in Canada, in Canadian currency	7,793,796,765	6,776,841,695
Other	7,520,866,019	6,548,477,262
	18,577,969,391	16,550,476,748
Sundry Liabilities		
Acceptances, guarantees and letters of credit	927,660,822	840,271,458
Other liabilities	58,595,700	88,043,373
	986,256,522	928,314,831
Accumulated appropriations for losses	146,948,824	122,657,630
Capital Funds		
Debentures issued and outstanding (Note 3)	240,000,000	190,000,000
Shareholders' Equity		
Capital stock —		
Authorized —		
50,000,000 shares of $2 each		
Issued (Note 4)	75,381,685	68,343,750
Rest account (Note 4)	465,665,112	382,000,000
Undivided profits	157,089	841,121
Total Shareholders' Equity	541,203,886	451,184,871
Total Capital Funds	781,203,886	641,184,871
Total	$20,492,378,623	$18,242,634,080

Auditors' Report to the Shareholders of the Bank of Montreal

We have examined the Statement of Assets and Liabilities of the Bank of Montreal as at October 31, 1976 and the Statement of Revenue, Expenses and Undivided Profits and the Statement of Accumulated Appropriations for Losses for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Bank as at October 31, 1976 and its revenue, expenses and undivided profits and accumulated appropriations for losses for the year then ended, prepared on a basis consistent with that of the preceding year.

John W. Beech, F.C.A.,
of the firm of
Touche Ross & Co.

Warren Chippindale, C.A.,
of the firm of
Coopers & Lybrand

Auditors
Montreal, November 22, 1976

Bank of Montreal Trust Company
(Incorporated under the laws of the State of New York)

Statement of Assets and Liabilities (U.S. Currency)	**Sept. 30 1976**	Sept. 30 1975
Assets		
Due from banks	$ –	$ 268,489
Short-term advances (Note 8)	76,500,000	–
United States government securities (Note 7)	446,125	1,295,563
Other securities (Note 7)	544,787	382,028
Loans and advances	4,741,450	4,062,025
Other assets	400,126	372,649
Total Assets	$82,632,488	$6,380,754
Liabilities		
Due to banks	$62,575,909	$ –
Demand deposits	16,261,844	2,859,646
Income taxes	66,813	10,898
Other liabilities	11,382	41,473
	78,915,948	2,912,017
Shareholders' Equity		
Capital stock —		
Authorized, issued and fully paid —		
10,000 shares of $100 each	1,000,000	1,000,000
Surplus	1,000,000	1,000,000
Undivided profits	1,716,540	1,468,737
	3,716,540	3,468,737
Total Liabilities and Shareholders' Equity	$82,632,488	$6,380,754

Bankmont Realty Company Limited
And its wholly-owned subsidiary company
(Incorporated under the laws of Canada)

Condensed Consolidated Statement of Assets and Liabilities	**Oct. 31 1976**	Oct. 31 1975
Assets		
Cash	**$ 908,384**	$ 807,656
Accounts receivable	**9,375**	5,740
Other assets	**139,778**	128,159
Real estate and buildings — at cost less accumulated depreciation	**7,672,573**	7,824,904
Total Assets	**$8,730,110**	$8,766,459
Liabilities		
Accounts payable	**$ 48,134**	$ 68,879
Mortgage payable	**1,677,091**	1,709,175
	1,725,225	1,778,054
Shareholders' Equity		
Capital stock —		
Authorized —		
30,000 5% non-cumulative preferred shares of the par value of $100 each (redeemable at par)		
100,000 common shares without nominal or par value		
Issued and fully paid —		
19,500 preferred shares	**1,950,000**	1,950,000
100,000 common shares	**5,000,000**	5,000,000
	6,950,000	6,950,000
Retained earnings	**54,885**	38,405
	7,004,885	6,988,405
Total Liabilities and Shareholders' Equity	**$8,730,110**	$8,766,459

Auditors' Report to the Shareholders of the Bank of Montreal

We have examined the statements of assets and liabilities of the controlled corporations as at the dates indicated. Our examinations included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying statements of assets and liabilities present fairly the financial position of the corporations as at the dates indicated, on a basis consistent with that of the preceding year.

John W. Beech, F.C.A.,
of the firm of Touche Ross & Co.

Warren Chippindale, C.A.,
of the firm of Coopers & Lybrand

Montreal, November 22, 1976

Bank of Montreal

1. Significant accounting policies

The Bank Act supported by Rules issued under the authority of the Minister of Finance stipulates the form and content of the financial statements published by Canadian Chartered Banks.

The significant accounting policies involved are:

(a) Basis of consolidation

The financial statements of the Bank include the assets and liabilities and results of operations of all wholly-owned banking subsidiaries, which are:

Bank of Montreal International Limited
Bank of Montreal (California)
Bank of Montreal Jamaica Ltd.
Bank of Montreal Trust Corporation Cayman Limited
First Canadian Assessoria e Servicos Ltda.
First Canadian Financial Corporation B.V. and subsidiaries
First Canadian Financial Services (U.K.) Limited

Investments in shares of the following controlled corporations are carried at cost:

Bank of Montreal Trust Company
Bankmont Realty Company Limited

(b) Loans

Loans are stated "less provision for losses", that is, after reducing doubtful loans to estimated realizable values.

The charge for provision for losses on loans, included in other operating expenses, is based upon a formula prescribed by the Minister of Finance, designed to average the charge over a 5 year period ending in the current year.

The difference between the charge and the amount which management determined to be required for the year when valuing the loan portfolio is shown in the statement of accumulated appropriations for losses.

(c) Appropriation for losses

In addition to the provision for losses on loans an appropriation for losses is made annually to provide for possible unforeseen future losses on loans, securities and other assets.

(d) Securities

Securities issued or guaranteed by Canada and the Provinces are recorded at amortized cost. Other securities are recorded at the lower of cost and market values.

Gains and losses on disposals and write-downs to market of securities held in the Bank's investment account are included in the statement of accumulated appropriations for losses.

Gains and losses on disposals and write-downs to market of securities held in the Bank's trading account are included in "Income from securities" in the statement of revenue, expenses and undivided profits.

(e) Translation of foreign currencies

Assets, liabilities and profits and losses in foreign currencies are translated into Canadian dollars at rates prevailing on October 31, 1976.

Gains and losses on foreign currency positions held in the Bank's trading account are included in "Other operating revenue".

Gains and losses on foreign exchange positions which are of a capital nature are included in the statement of accumulated appropriations for losses.

(f) Depreciation

Depreciation of buildings and equipment is computed by the reducing balance method and amortization of leasehold improvements is computed by the straight-line method.

2. Cash and Due from Banks	**1976**	1975
Included in cash and due from banks are term deposits at interest	**$1,734,406,532**	$1,761,431,758

3. Debentures

The debentures are direct unsecured obligations of the Bank and are subordinated in right of payment to the claims of depositors and certain other creditors of the Bank.

7% Series A redeemable in 1978, at holder's option, 7½% thereafter, maturing in 1992	**$ 50,000,000**	$ 50,000,000
7½% Series B redeemable in 1977, at holder's option, 7¾% thereafter, maturing in 1982	**40,000,000**	40,000,000
7¼% Series C redeemable in 1979, at holder's option, maturing in 1987	**50,000,000**	50,000,000
10¼% Series D, maturing in 1980	**50,000,000**	50,000,000
9% Series E redeemable in 1981, at the option of the Bank, maturing in 1982	**50,000,000**	—
	$240,000,000	$190,000,000

4. Capital Stock and Rest Account

During the year 3,796,875 shares were issued pursuant to the rights offering which expired June 30, 1976. Changes for the year in the Capital stock and Rest accounts resulting from the issue of these additional shares are as follows:

	Capital Stock			
	Number of Shares			
	Issued and Fully Paid	Partly Paid	Amount	Rest Account
October 31, 1975	34,171,875	–	$68,343,750	$382,000,000
Proceeds from fully paid shares	3,188,509	–	6,377,018	38,262,108
Proceeds from partly paid shares	–	608,366	660,917	3,965,504
Transfer from undivided profits	–	–	–	41,437,500
October 31, 1976	37,360,384	608,366	$75,381,685	$465,665,112

The 608,366 partly paid shares are being paid for by instalments as provided by the Bank Act and, when fully paid, the balances of the accounts of the Capital stock and the Rest account will be increased by $555,815 and $3,334,888 respectively.

Per share figures have been calculated on a weighted average of equivalent fully paid shares outstanding, reflecting the rights' issue in June 1976. The average number of shares outstanding for the year ended October 31, 1976 was 35,380,014 shares (1975 – 34,171,875 shares).

Partly paid shares receive dividends in proportion to the amounts paid thereon.

5. Provision for income taxes

The provision for income taxes in the statement of revenue, expenses and undivided profits is computed by reference to the balance of revenue before taking into consideration the income tax reduction of $7,373,000 arising from $16,200,000 of appropriation for losses being deductible in the determination of taxable income in the current year. This reduction in income taxes is recorded in the statement of accumulated appropriations for losses. The net provision for income tax for the year is shown as follows:

	1976	1975
Statement of revenue and expenses and undivided profits	**$78,900,000**	$93,600,000
Statement of accumulated appropriations for losses	**(6,625,585)**	(2,456,505)
	$72,274,415	$91,143,495

6. Anti-inflation legislation

The Bank is subject to the Federal anti-inflation legislation relative to income, compensation and dividends.

Controlled Corporations

7. Securities

Securities of Bank of Montreal Trust Company are carried at cost which approximates market value.

8. Short Term Advances

Short term advances represent the employment of overnight deposits from banks on September 30, 1976, resulting from the closing of a customer's bond issue.

9. Interest of Bank of Montreal in Controlled Corporations

	1976	1975
Investment in shares — at cost		
Bank of Montreal Trust Company	**$1,489,551**	$1,489,551
Bankmont Realty Company Limited	**6,950,000**	6,950,000
	$8,439,551	$8,439,551

10 Year Financial Highlights

Thousands of Dollars Except where Noted

For the Year ended October 31	1976	1975	1974
Total Revenue	1,798,722	1,705,816	1,582,865
Total Expenses	1,623,888	1,510,081	1,473,872
Balance of Revenue	174,834	195,735	108,993
Income Taxes	78,900	93,600	52,500
Balance of Revenue after Income Taxes	95,934	102,135	56,493
Balance of Profits	75,934	81,135	44,993
Dividends	35,181	32,805	32,805
Salaries and Benefits paid to Employees	327,146	273,963	221,859
As at October 31			
Assets	20,492,379	18,242,634	17,650,974
Loans	14,128,978	12,314,667	10,625,900
Deposits	18,577,969	16,550,477	16,088,762
Accumulated Appropriations for Losses	146,949	122,658	105,703
Shareholders' Equity	541,204	451,185	402,855
Capital Funds	781,204	641,185	592,855
Dollars Per Share**			
Balance of Revenue	4.94	5.73	3.19
Balance of Revenue after Income Taxes	2.71	2.99	1.65
Balance of Profits	2.15	2.37	1.32
Dividends	0.98	0.96	0.96
Other Information			
Number of Shareholders at Year-End	52,452	51,253	49,756
Number of Employees at Year-End	26,887	26,114	24,231
Number of Branches at Year-End	1,243	1,243	1,221
Average Numbers of Shares Outstanding	35,380,014	34,171,875	34,171,875
Share Price Range in Dollars:*** High	16⅞	17⅞	20⅞
Low	14⅞	11¼	11¼

*Includes additional contribution of $15 million to the Pension Fund.

**Per share figures have been calculated on a weighted average of equivalent fully paid shares outstanding.

***Source: Toronto Stock Exchange. Quotations are to Fiscal Year End.

For the information of shareholders, the valuation day value of the Bank's capital stock for capital gains tax purposes as published by the Department of National Revenue, Taxation, is $18.50.

	1973	1972	1971	1970	1969	1968	1967
	987,758	734,946	682,197	702,131	577,693	430,981	342,067
	856,189	616,289	586,131	608,806	496,560	363,282	290,128
	131,569	118,657	96,066	93,325	81,133	67,699	51,939
	63,067	55,132	48,420	48,763	41,548	18,131	20,459
	68,502	63,525	47,646	44,562	39,585	49,568	31,480
	56,943	53,157	38,366	35,896	34,263	18,061	20,720
	30,755	28,704	26,312	25,629	23,184	17,618	15,795
	175,896	146,498	133,710	125,076	127,240*	100,784	86,690
	14,409,288	11,323,389	10,165,397	8,730,051	8,152,864	6,818,514	6,132,453
	8,701,829	6,981,553	5,866,849	4,980,583	4,767,813	4,097,183	3,829,259
	13,290,935	10,356,739	9,450,161	8,022,958	7,506,316	6,229,856	5,608,490
	117,033	103,346	119,934	97,670	104,901	108,570	74,851
	390,667	364,479	315,026	302,972	291,575	236,064	235,620
	530,667	454,479	315,026	302,972	291,575	236,064	235,620
	3.85	3.47	2.81	2.73	2.51	2.23	1.71
	2.00	1.86	1.39	1.30	1.22	1.63	1.04
	1.67	1.56	1.12	1.05	1.06	0.59	0.68
	0.90	0.84	0.77	0.75	0.70	0.58	0.52
	47,777	44,757	44,173	44,416	45,645	33,593	28,773
	22,008	20,172	19,305	18,253	17,063	16,088	16,039
	1,186	1,151	1,113	1,069	1,039	1,033	1,016
	34,171,875	34,171,875	34,171,875	34,158,730	32,319,856	30,375,000	30,375,000
	23⅜	22⅝	17	17¼	17⅝	15	13⅞
	17	15½	14	13¼	13½	10⅛	10⅜

Board of Directors

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Chairman and Chief Executive Officer

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President

G. Arnold Hart,
Chairman of the Executive Committee

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Partner, Messrs. Létourneau, Stein, Marseille, Delisle & LaRue

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The Molson Companies Limited

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Company Director

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Vice-Chairman, Inco Limited

Claire P. Bertrand, *Montreal*
Vice-Chairman, Heritage Canada

S. Robert Blair, *Calgary*
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The Alberta Gas Trunk Line Company Limited

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The Seagram Company Ltd.

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Company Director

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President, Laiterie Laval Limitée

H. Roy Crabtree, *Montreal*
Chairman and President,
Wabasso Limited

Andrew C. Crosbie, *St. John's, Newfoundland*
President,
Crosbie Group of Companies

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Public Affairs Editor,
CFRB Limited

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President, Likely Equipment Ltd.

J. Blair MacAulay, *Oakville*
Company Director

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Executive Vice-President and General Manager, Corporate Banking, Bank of Montreal

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Partner, Messrs. Fraser & Beatty

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Partner, Messrs. McMaster, Minnion, Patch, Hyndman, Legge, Camp & Paterson

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Honorary Chairman, The Morgan Trust Company

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Forrest Rogers, *Vancouver*
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H. Richard Whittall, *Vancouver*
Deputy Managing Partner,
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Executive Vice-President
and Chief General Manager

Head Office

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Executive Vice-President
and Chairman of the
Credit Policy Committee

R. G. Lammers,
Vice-President,
Credit Policy Staff

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Funds Management

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Vice-President and
Secretary

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Comptroller

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Vice-President and
Chief Accountant

B. G. Hull,
Senior Vice-President,
Operations & Systems

A. T. Anastasio,
Vice-President,
Operations & Services

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Advanced Systems

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Legislation & Government

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and General Manager

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B. H. Campbell,
Senior Vice-President

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Executive Vice-President
and General Manager

J. D. C. de Jocas,
Executive Vice-President
and General Manager,
Eastern Operations

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Vice-President

D. E. McLean,
Vice-President

A. N. Tait,
Vice-President

Atlantic Provinces Division

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Senior Vice-President

T. G. Trehearne,
Vice-President
(Resident in
St. John's)

Quebec Division

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Vice-President

E. C. M. Pratt,
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Manager, Montreal
Main Branch

Ontario Division

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Branches
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Bank of Montreal International Limited
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